

Bond Readiness

Presented By:

BDH Associates, Inc.

4572 Lawrenceville Hwy.

Lilburn, GA 30045

(770) 564-2999 Voice (888) 3280500

FAX: 770-564-9327

2013 DBE Statewide Training Conference

Atlanta, GA

Bond Readiness

The Presentation

What is the best way to present your company to a surety for Bonding Credit?

ACCURATELY

COMPLETELY

NEATLY

CONSISTENTLY

2013 DBE Statewide Training Conference

Atlanta, GA

- ## Business Plan

Live and die by your plan but flexibility is the key in today's environment. This is usually your first and only chance to highlight your abilities.

- ## Resumes

Highlight experience and education.

All owners

All key personnel

- ## Contractor Questionnaire

Critical – provides business data and historical information to surety. Must be complete, accurate and detailed.

Do not leave any question unanswered – blanks create additional questions.

2013 DBE Statewide Training Conference

Atlanta, GA

- **Bank Credit**

Revolving Line of Credit
10% of Single Bond Limit Requested

- **Personal Financial Statement**

Complete, accurate financial data.

Fully completed schedules reconciled with assets and liabilities listed.

Dated and signed by applicant and spouse.

- **Work-in-Progress Report**

Reflects accurate internal cost and accounting systems.

Should be accurate.

Should reconcile with previous reports and financial statements.

Prequalification

Surety takes an in-depth look at the contractor's entire business operation to determine contractor's:

- Financial Strength - Ability to meet current & future obligations
- History of promptly paying subcontractors & suppliers
- Experience matching requirements of the job
- Good standing with bank & established line of credit
- Equipment and personnel necessary to perform the work
- Character - Reputation in good standing

2013 DBE Statewide Training Conference

Atlanta, GA

Financial Statements

Quality & Presentation

- Interview only Certified Public Accounting Firms that specialize in construction accounting.
- Obtain references from current construction- oriented clients.
- Statements must be prepared according to Generally Accepted Accounting Principals using % of completion.

2013 DBE Statewide Training Conference

Atlanta, GA

Scope of Financial Examination

As a general rule most surety companies will apply the following rule to their underwriting requirements. Statements must be accrual based.

Bond Size

Less than \$250,000

\$250,000 to \$1,000,000

\$1,000,000 to 10,000,000

Over \$10,000,000

Requirement

Based on Personal Credit
Compilation w/verifications

Review w/schedules

Audit

Proper financial statements, prepared according to GAAP guidelines will include:

- Accountant's Disclosure Letter
- Balance Sheet (assets, liabilities & equity)
- Statement of Profit & Loss (income statement)
- Reconciliation of Retained Earnings and Owner's Equity
- Statement of Cash Flow
- Accountant's Notes to the Financial Statement
- Supplemental Schedule of Completed Contracts
- Supplemental Schedule of Contracts in Progress
- Schedule of Job Costs (if not detailed in income statement)
- Schedule of General and Administrative Expenses

What are Sureties looking for?

- Demonstrated history of successfully completing work
- Exceptional character – history of paying just debts
- Established credit capacity with banks and suppliers
- Financial wherewithal to properly finance project start-up
- History of generating profit on work undertaken
- History of growth in equity of company

2013 DBE Statewide Training Conference

Atlanta, GA

What Bond Limits Can You Expect?

Bonding limits are general based on a number of factors

- Largest previously completed project
Largest Previous Job x 1.25%
- Average working capital position
Allowed Working Capital x 10 of backlog based on cost-to-complete
- Profitability
2 out of last 3 years – at 1.5% of revenue or greater
- Bank support
Minimum of 10% of single bond limit
- Length of time in business

2013 DBE Statewide Training Conference

Atlanta, GA

What are My Surety Options?

A. The Traditional Surety Market

Large bond limits, Low Premium Rates – Very Restrictive

B. The Specialty Surety Market

Small to mid-size bond limits, Low to Mid-range Premium Rates – Credit Sensitive, Restrictive

C. The Collateral Surety Market

Lenient Underwriting Requirements – High Premium Rates, Ties up WC/Cash

D. U.S. Small Business Administration

Creative Underwriting, Limits to \$6.5MM per bond, WC 5% of backlog – Paper-intensive, SBA Fee

Bond Readiness

Are you prepared?

Construction-oriented Accountant

Surety-savvy Insurance Agent

Formal Business Plan

Continuity Plan

Internal Cost & Accounting Controls

2013 DBE Statewide Training Conference

Atlanta, GA